

January 11, 2001

TO: Senator Snyder, Chair
Senator Dan McDonald
Representative Dunshee
Representative Thomas
Fred Kiga, Director, Department of Revenue
Marty Brown, Director, Office of Financial Management

FROM: Chang Mook Sohn, Executive Director
Office of the Forecast Council

SUBJECT: JANUARY 10, 2001 REVENUE COLLECTION REPORT

Despite evidence of a slowing national economy General Fund-State tax receipts were very strong in the December 11- January 10 collection period. Collections exceeded the estimate for the month by \$30.1 million. Higher than expected Revenue Act tax payments (retail sales, business and occupation, use, public utility and tobacco products) accounted for more than the total variance, exceeding the estimate by \$36.3 million. Other General Fund receipts were a little under the estimate for the month. Cumulatively, collections are \$33.9 million higher than expected in the two months since the November forecast. Some of this month's higher than expected revenue is due to a large, unexpected assessment payment of \$8.2 million. State employment growth was a little stronger than expected and strong aircraft deliveries also contributed to higher than expected collections. The November Revenue forecast expected economic and revenue growth to slow. Indeed, for the last several months revenue growth has been slowing and recent economic data suggests that the national economy is weakening even more rapidly than was assumed in the forecast. Although much higher than expected revenue this month was a pleasant surprise, it is inconsistent with the underlying economic fundamentals; it is unlikely to be repeated in the near future and may be offset by weaker than expected growth in the next several months.

Revenue act collections in the December 11- January 10, 2000 collection period (reflecting November 2000 business activity) were very strong. Collections were 8.6 percent above a year-ago (adjusting for special factors), the strongest increase since May. Revenue growth had been slowing the past few months with collections growing less than 5 percent the last five months. The sudden acceleration of revenue growth comes amid a flurry of evidence of a slowing national economy. Weak U.S. retail sales in November, anecdotal evidence of weak December sales, a very weak manufacturing sector, weakening consumer confidence, soaring energy costs, and a slumping equity market all indicate economic activity is slowing. The news was so negative and the evidence real enough for the Federal Open Market Committee to make an unexpected 50 basis points reduction in the Federal Funds rate in an effort to hold off a hard landing. Despite this month's strong performance, the underlying trend of revenue growth is one of deceleration.

Preliminary data on taxes paid in the December 11 to January 10 collection period indicate strength pretty much across-the-board. Taxes paid by retailers were up over 7.0 lead by double-digit increases reported by auto dealers and furniture and household equipment retailers. This is in sharp contrast to the less than 5.0 percent gains reported in five of the last seven months. Preliminary data show that taxes paid by the construction and the manufacturing sectors were also up more than 10 percent. The only indication of any weakness was in the wholesale trade sector which reported an increase of tax payments of less than 2.0 percent.

Non Revenue Act General Fund taxes collected by the Department of Revenue were \$5.4 million below the forecast in December. This more than offsets last months higher than expected Non Revenue Act collections. Cumulatively, in the two months since the November forecast Non Revenue Act receipts are \$4.3 million less than expected. This month estate tax payments were higher than expected but this was more than offset by a shortfall of property and real estate excise taxes as well as "other" revenue. The weakness in property tax receipts is relatively small and likely reflects volatility in the monthly payment pattern.

Real estate excise activity weakened in November (November closings reflecting taxes paid to the state in December) despite lower mortgage rates. Activity was down 6.4 percent statewide after increasing 1.6 percent last month. Both the number of transactions (-6.0 percent) and the average value per transactions (-0.5 percent) were down for the month. This is the first time since March that the average value has been below the year-ago level. For first eleven months of the year, real estate activity is down 1.7 statewide.

Other agencies' collections were \$0.8 million below the forecast in December. Department of Licensing General Fund collections were virtually on target both for the month and cumulatively since the November forecast. The lottery's transfers to the General Fund were \$0.8 million below the estimate for the month. Cumulatively, lottery transfers are \$1.7 million above the November forecast.

The attached table 1 provides a comparison of collections with the November forecast for the December 11 to January 10, 2001 collection period. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

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Attachments

TABLE 1
Revenue Collection Report
January 10, 2001 Collections Compared to the November 2000 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
December 11 - January 10, 2001				
Department of Revenue-Total	\$939,034	\$969,927	\$30,892	3.3%
Revenue Act** (1)	609,976	646,315	36,339	6.0%
Non-Revenue Act(2)	329,058	323,612	(5,446)	-1.7%
Liquor Sales/Liter	7,213	7,609	396	5.5%
Cigarette	5,490	4,703	(786)	-14.3%
Property (State School Levy)	272,754	268,918	(3,836)	-1.4%
Estate	6,619	8,880	2,261	34.2%
Real Estate Excise	31,003	29,065	(1,938)	-6.3%
Timber (state share)	0	0	0	NA
Other	5,980	4,437	(1,544)	-25.8%
Department of Licensing (2)	555	607	52	9.5%
Lottery (2)	2,791	1,971	(820)	-29.4%
Total General Fund-State***	\$942,381	\$972,505	\$30,125	3.2%
Cumulative Variance Since the November Forecast (November 11 - January 10, 2001)3				
Department of Revenue-Total	\$1,925,916	1,958,096	32,179	1.7%
Revenue Act** (3)	1,220,616	1,257,121	36,505	3.0%
Non-Revenue Act(4)	705,300	700,974	(4,326)	-0.6%
Liquor Sales/Liter	14,433	14,479	46	0.3%
Cigarette	10,647	9,998	(649)	-6.1%
Property (State School Levy)	566,384	561,848	(4,536)	-0.8%
Estate	15,586	17,045	1,459	9.4%
Real Estate Excise	64,312	62,619	(1,693)	-2.6%
Timber (state share)	4,340	4,208	(132)	NA
Other	29,598	30,778	1,180	4.0%
Department of Licensing (4)	1,026	1,073	47	4.6%
Lottery (4)	8,534	10,201	1,667	19.5%
Total General Fund-State***	\$1,935,476	\$1,969,370	\$33,893	1.8%

1 Collections December 11 - January 10, 2001. Collections primarily reflect November 2000 activity of monthly taxpayers.

2 December 1-31, 2000 collections.

3 Cumulative collections, estimates and variance since the November forecast; (Nov. 11- January 10, 2001) and revisions to history.

4 Cumulative collections, estimates and variance since the November forecast; (November & December 2000) and revisions to history.)

* Based on the November 2000 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue, the Department of Licensing and the Lottery Commission, about 97% of total General Fund-State.

TABLE 2
December 10, 2000 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
November 11 - December 10, 2000				
Department of Revenue-Total	\$988,169	\$988,169	(\$0)	-0.0%
Revenue Act (1)	610,806	610,806	0	0.0%
Non-Revenue Act(2)	377,362	377,362	0	0.0%
Liquor Sales/Liter	6,870	6,870	0	0.0%
Cigarette	5,295	5,295	(0)	-0.0%
Property (State School Levy)	292,930	292,930	0	0.0%
Estate	8,165	8,165	(0)	-0.0%
Real Estate Excise	33,554	33,554	(0)	-0.0%
Timber (state share)	4,208	4,208	(0)	NA
Other	26,341	26,341	0	0.0%
Department of Licensing (2)	495	495	0	0.0%
Lottery (2)	8,230	8,230	0	0.0%
Total General Fund-State***	\$996,894	\$996,894	\$0	0.0%

Cumulative Receipts: November 11 - December 10, 2000 & Revisions to History

Department of Revenue-Total	988,169	\$988,169	(\$0)	-0.0%
Revenue Act (3)	610,806	610,806	0	0.0%
Non-Revenue Act(4)	377,362	377,362	0	0.0%
Liquor Sales/Liter	6,870	6,870	0	0.0%
Cigarette	5,295	5,295	(0)	-0.0%
Property (State School Levy)	292,930	292,930	0	0.0%
Estate	8,165	8,165	(0)	-0.0%
Real Estate Excise	33,554	33,554	(0)	-0.0%
Timber (state share)	4,208	4,208	(0)	NA
Other	26,341	26,341	0	0.0%
Department of Licensing (4)	465	465	0	0.1%
Lottery (4)	8,230	8,230	0	0.0%
Total General Fund-State***	996,865	\$996,865	(\$0)	-0.0%

P-Preliminary. Reported in the December 10, 2000 collection report.

R Revised data.

1 Collections November 11 - December 10, 2000. Collections primarily reflect October 2000 business activity of monthly taxpayers.

2 November 1-30, 2000 collections.

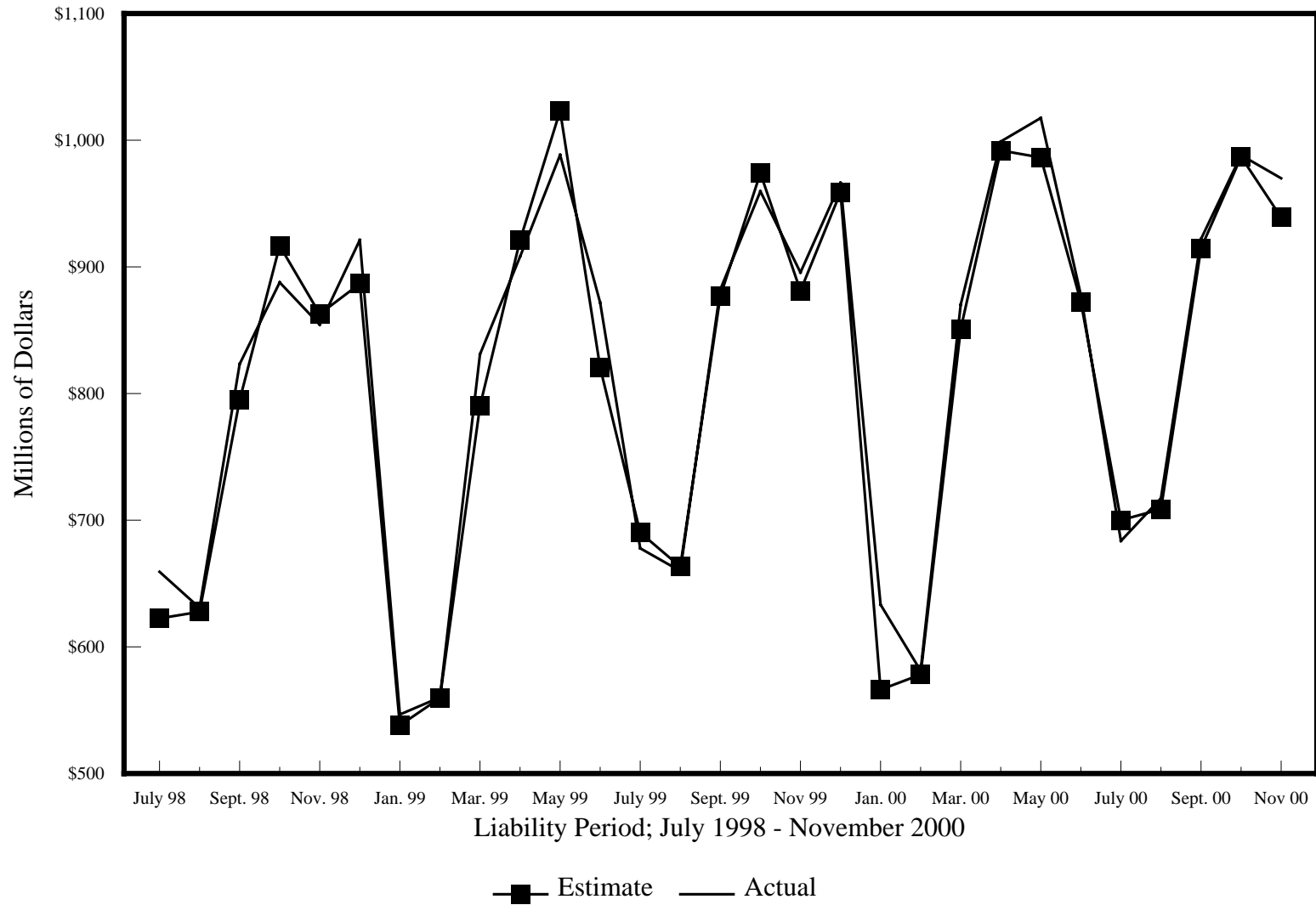
3 Cumulative variance for since the September forecast: Nov. 11 - December 10,2000 & revisions to history.

4 Cumulative variance: since the September forecast (November 2000) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

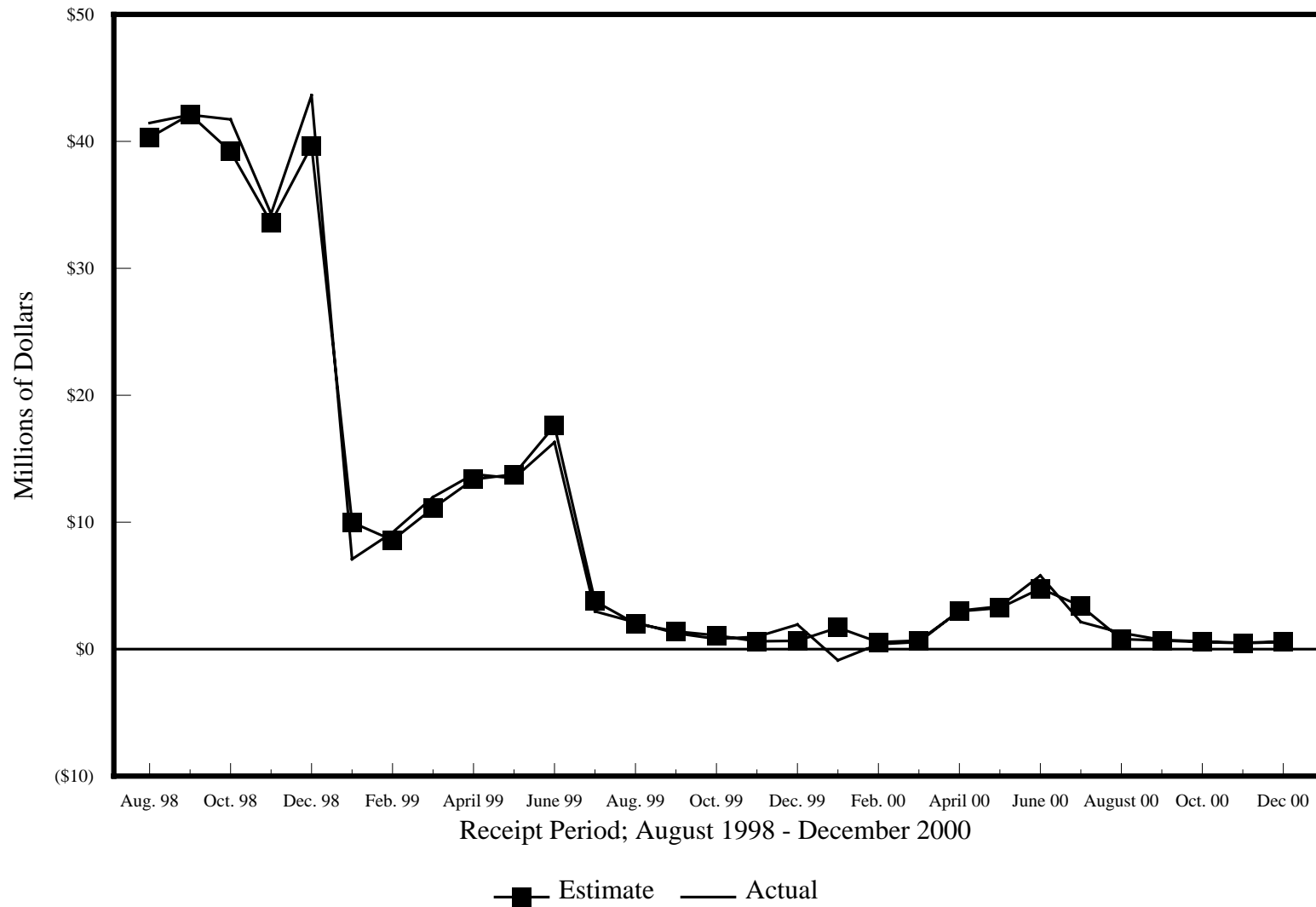
Department of Revenue: General Fund-State, Actual vs. Estimate

July 98 to November 2000



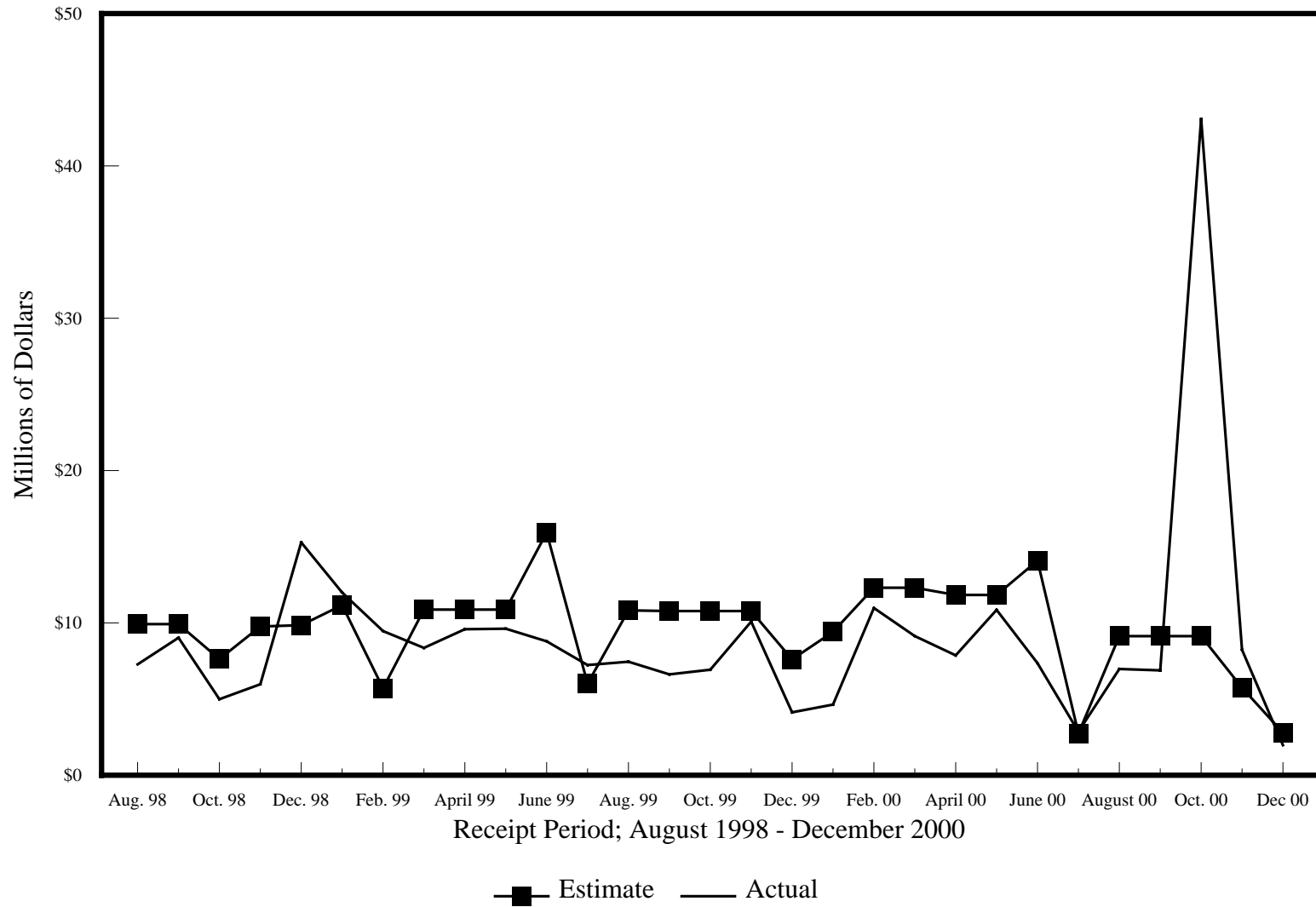
Department of Licensing General Fund-State, Actual vs. Estimate

August 98 to December 2000



Lottery Transfers to the General Fund, Actual vs. Estimate

August 98 to December 2000



Revenue Act Net Collections

Year-over-Year Percent Change

